Customer Choice Coalition

Powering Michigan
ENERGY CHOICE NOW
THROUGH COMPETITION

For Immediate Release
Nov. 1, 2011

For More Information Contact
David Waymire 517-485-6600; dwaymire@mwadvocacy.com
Maureen McNulty Saxton 517-899-5513; PR-Edge@comcast.net

Michigan Businesses Testify of Harm Being Done By Current Energy Law

Senate Energy & Technology Committee Hears From Wide Range of Stakeholders Seeking More Competitive Options For Electric Supply

As Utility Rates Skyrocket, So Does Membership in ECN and List of Customers Wanting Access to Competition and Customer Choice

Michigan-based Energy Choice Now, the Customer Choice Coalition and a variety of businesses today provided testimony* before the Senate Energy and Technology committee on the impact of PA 286 of 2008, Michigan's energy law. PA286 capped electric competition at 10 percent. Chairman Mike Nofs and the members of the committee were lauded for opening a discussion on the effects of the 10 percent cap on Michigan's businesses.

"You as legislators are concerned about improving Michigan's economy. This electricity choice issue is an opportunity to do just that," said William A. (Bill) Zehnder, president, Frankenmuth Bavarian Inn, Inc., who spoke to the tremendous difficultly and demands facing Michigan's Hotel and Restaurant business, specifically: rising utility costs.

"Obviously it has not been easy laying off staff, cutting insurance benefits and paying rising costs for insurances, utilities, and of course all of our cost of good's categories. We ARE in <u>SURVIVAL</u> mode. Please assist other Michigan companies by giving them a CHOICE. The benefit to our great State of Michigan will be significant reinvestment by thousands of businesses and thus growth in employment and opportunity. My business would love to reinvest with the potential savings – to buy more equipment, upgrade our facilities, hire more team members, pay more in wages and benefits, and buy more Michigan products."

The hearing coincided with a number of important developments:

- The most recent data released by the U.S. Energy Information Administration showing Michigan's job-killing electric rates continue to be the highest in the Midwest and well above the national average.
- Business membership of Energy Choice Now topped the 100 member mark.
- The "queue" lists that are held by DTE and Consumers Energy of current customers who want to leave the utilities and take a competitively-priced electric supply option with an alternative electric supplier (AES)surging past 5,500 businesses.

Since implementation of the cap on electric competition in late 2008, rate increases by Consumers Energy and DTE Energy, including the latest rate hike request by Consumers Energy, total 30 percent and 25 percent, respectively, for Michigan customers.

"We can't afford to have high electric rates stall Michigan's comeback," said Mark Butler, Owner, VP Finance and Admin., Campbell Grinder Company, a Michigan machine manufacturer since 1969. "If we were able to shop for electricity in a fully competitive market, we could save significant amounts of money and pass those savings along to our customers and employees."

Other Michigan businesses provided written testimony to the hearing:

"I am frustrated by my firm's high electric bills, and want to encourage legislators to address the unfair, uncompetitive 10 percent cap on electric choice," said Jonas McCluskey, president, Elm Plating Co. of Jackson. "While I, and likely all of my business colleagues in Michigan, appreciate the time and efforts legislators devoted to successfully addressing and changing unfair business taxes in Michigan, those taxes pale in comparison to our energy costs.

"We prefer to continue to operate our family owned plating, anodizing, and heat treating business here in Michigan where it started nearly 65 years ago. However the draw to relocate to another state for a reason such as this, not to mention tax benefits, and many other regulatory reasons becomes stronger and stronger.... The state has come up with numerous incentives to attract new business. It's time to also focus on keeping and supporting those businesses that are here and would like to stay."

The damage caused by the 10 percent cap on competition is not limited to small or mid-size businesses either.

"Our experience is that competitive electricity markets have allowed the company to lower its energy costs," said Steve Elsea, whose job as director of energy services for Leggett & Platt, a Fortune 500 manufacturer, includes maximizing the energy value from supplier to point of use for Leggett & Platt's global manufacturing operations.

"A prime example is in Ohio...Leggett & Platt has reduced its total electricity costs by almost 15% in Ohio since we have been buying through the competitive market."

Leggett & Platt operates 140 production plants in 18 countries and employs 19,000 workers. We operate one hundred manufacturing plants in 22 states in the U.S. that employ approximately 9,000 American workers. Leggett & Platt operates five production plants in Michigan and employs approximately 350 workers.

"The fact is, energy is our third highest cost component behind raw material and labor. It is a cost of doing business that can determine the difference between being profitable or not. We continually evaluate our cost of doing business in various locations, and have made adjustments ranging from closing operations where competitive choices were not available at one location and consolidating in another location where retail choice was available."

The Gerdau Group, a specialty steel bar producer headquartered in Jackson, also provided live testimony to the committee. Gerdau, with world-class steel manufacturing plants in Jackson and Monroe, is the world's 13th largest steelmaker and the largest producer of long steel in the Americas. Gerdau has 337 industrial and commercial facilities, operates in 14 countries and employs over 900 people at its two Michigan facilities.

Zehnder concluded his testimony by saying:

"I don't feel government should be in the business of picking winners and losers. This restriction has done exactly that for several years. My family has had the Choice to choose our gas company for 24 years; please allow me to choose my electrical energy company too!"

Media Contacts:

Jim Engel
COO, GM, **Bavarian Inn Lodge**
989.480.7950
jimengel@bavarianinn.com

Steve Elsea
Director of Energy Services, **Leggett & Platt**
416.388.3701
Steve.Elsea@leggett.com

Mark S. Butler
Co-Owner, Vice President Finance & Administration, **Campbell Grinder Company**
231.798.6464
mbutler@campbellgrinder.com

Wayne Kuipers
Executive Director, **Energy Choice Now**
616.403.2275
senator@iserv.net

Teresa Ringenbach
Senior Manager, Government & Regulatory Affairs, **Direct Energy**
614.633.6829
Teresa.Ringenbach@directenergy.com

David Fein
Vice President, Energy Policy, **Constellation Energy**
312.446.2882
David.Fein@constellation.com

The Customer Choice Coalition *a group of businesses, associations and power suppliers who support free enterprise and competition. You can learn more at* www.customerchoicecoalition.com

Energy Choice Now is a grassroots coalition of customers, suppliers, and trade associations whose mission is to promote the right for Michigan consumers to have real energy choices when selecting their electricity provider. You can learn more at www.ecnmichigan.com

* **Full testimony available in media kit and upon request.**

For Immediate Release
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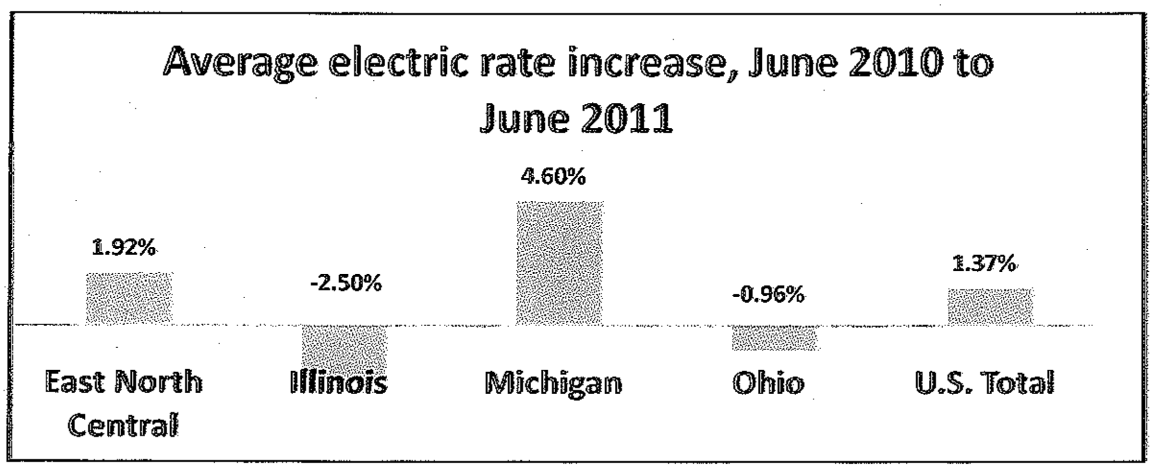
For More Information Contact
David Waymire: 517-485-6600
dwaymire@mwadvocacy.com
Maureen Saxton: 517-899-5513
PR-Edge@comcast.net

Michigan's electric rates again higher than all surrounding states, growing fast
Michigan industrial customers paying 20 percent more than Indiana factories, data show

The results are in and, once again, Michigan electric customers are the losers, as monopoly electric companies continue to force businesses and residential customers to pay far more than the regional average.

June data from the U.S. Energy Information Agency shows that as Michigan's factories try to compete against other states, they find themselves in a hole thanks to electric rates. Indiana factories are paying 20.25 percent less than those in Michigan; those in Ohio are paying 18.91 percent less and those in Illinois are paying 15.05 percent less than Michigan industrial customers.

"It's no wonder Michigan's unemployment rates are higher than surrounding states," said Wayne Kuipers, executive director of Energy Choice Now, a coalition of companies pushing for electric competition to lower rates. "Businesses are finding high electric rates a disincentive to ramp up production in our state. As Michigan tries to reinvent itself, opening the electric market to competition is a proven way to make us more competitive and help create jobs."



Even worse, the report shows that Michigan electric prices are soaring higher at far faster rates than competitor states – some of which are actually going down. Illinois and Ohio, two states that are letting competition set rates instead of government bureaucrats, as is the practice in Michigan, saw rates decrease over the last year. Michigan's rates increased at 4.6 percent – **more than triple the national average**, and far higher than inflation.

Those increases came even though total power use was down by 2.4 percent in the state. Normally, one would expect lower rates when demand is down – but not when monopolies are in charge.

"Our two major utilities keep telling us that they are working to hold down rates. The numbers tell us otherwise. Michigan cannot be competitive economically with these high rates – rates that continue to increase dramatically over those in place even one a year ago," Kuipers said.

Following is rate from the EIA showing Michigan's residential, commercial and industrial customers all paying more than any surrounding state.

June, 2011 EIA data	**Residential**	**Commercial**	**Industrial**	**All Sectors**
East North Central	**12.21**	**9.8**	**6.8**	**9.57**
Illinois	12.09	9.02	6.71	9.35
Indiana	10.21	8.85	6.42	8.24
Michigan	13.8	11	7.72	10.91
Ohio	12.02	9.69	6.26	9.32
Wisconsin	13.68	10.89	7.61	10.58
U.S. Total	**12.06**	**10.77**	**7.21**	**10.37**

Rates in cents per kilowatt hour: http://www.eia.gov/electricity/monthly/excel/epmxlfile5_6_a.xls

For more information about the Customer Choice Coalition visit www.customerchoicecoalition.com For more about Energy Choice Now visit www.ECNMichigan.com

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For More Information Contact
David Waymire: 517-485-6600
dwaymire@mwadvocacy.com
Maureen Saxton: 517-899-5513
PR-Edge@comcast.net

Michigan Voters to State Legislature: End Electric Monopoly

75 Percent of Statewide Poll Respondents Want More Competition
National White Paper: Competition Would Benefit Michigan Economy

The response is overwhelming: Three-fourths of state residents support ending the electric company monopoly in Michigan.

That was a major finding of an EPIC-MRA statewide poll of likely 2012 voters. Poll respondents also felt that competition is a good way to keep energy costs low, and that they are more likely to vote for politicians who support competition.

The poll results come on the heels of national white paper, by economist Jonathan Lesser and released by the COMPETE Coalition, demonstrating how competitive electricity markets spur economic growth and create jobs. It details the importance of allowing market competition to determine "winners" and "losers," not governments, which, it shows, have a long history of "invariably making the wrong choices."

According to the COMPETE White Paper, because competitive electric markets are the best way to keep prices as low as possible, such markets will also provide the greatest opportunity for economic growth and job creation.
http://www.competecoalition.com/files/COMPETE%20Electricity%20Competition%209.22.11.pdf

The Michigan poll reinforces the central message of the Customer Choice Coalition and Energy Choice Now – that Michigan's electric monopoly is harming our state's families and businesses, and a return to competition is needed.

"Michigan's businesses, governments and working families are tired of hearing about much lower rates right across the border in states like Illinois and Ohio, where competition is holding down rates," said ECN Executive Director Wayne Kuipers. "Michigan manufacturers are struggling to keep up with out-of-state competitors with lower electric costs and in-state competitors who were fortunate enough to get in under the cap. They deserve lower costs and better service."

The poll question asked: " ... Would you favor a change in state law that would allow all customers to purchase their electric service from any supplier that is able to provide reliable electric service to their area and compete for customers by offering electric service at a lower price, or, would you oppose such a change and prefer keeping things as they are?"

Seventy-four percent of respondents favored changing state law, with 56 percent of respondents strongly favoring the change, and 18 percent somewhat favoring change. Only 12 percent strongly opposed a change, while six percent where somewhat opposed and eight percent undecided.

The survey also asked voters if they thought that "having competition among companies that provide electric service, like it has been done in the natural gas and telecommunications industries, is a good way or a bad way to control energy costs? "

Seventy-five percent of respondents said that competition is a good way to control energy costs, with 49 percent saying it was "very good," and 26 percent saying it was "somewhat good."

It's no surprise that Michigan voters are frustrated. According to data from the Michigan Public Service Commission, DTE has raised residential rates by 10 percent annually since 2008, a whopping 29.9% increase. From 2000 to 2008, when DTE faced competition under state law, DTE raised rates for customers by about 3% per year. Including their most recent 5% rate hike request, Consumers Energy (CMS) rates have increased on average by 30%, with commercial rates at 26%-31% and industrial rates soaring at 34%-38%.

The EPIC-MRA poll is a statewide poll of Michigan voters focusing on various issues in the news. The poll surveyed a random sample of 600 likely voters from August 6-9, 2011. All interviews were conducted by telephone using professional interviewers. The margin of error is ±4 percent.

For more information about the Customer Choice Coalition visit www.customerchoicecoalition.com For more about Energy Choice Now visit www.ecnmichigan.com

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CCC
Customer Choice Coalition

Powering Michigan
ENERGY CHOICE NOW
THROUGH COMPETITION

For Immediate Release
Aug. 23, 2011

For More Information Contact
David Waymire 517-485-6600

Michigan's electric rates far higher than all surrounding states, higher than U.S. average
State factories paying 20 percent more than Midwest average, data show

Michigan's major utilities continue to drag down the state's economy by charging far more than surrounding states for electricity, new data from the U.S. Energy Information Agency shows.

Data from May, the most recent available, shows that overall Michigan paid 14.5 percent more than the regional average for electricity, and 5.8 percent more than the national average.

Factories suffered the biggest differential, with Michigan factories paying 19.6 percent more than the regional average – a critical price differential in the highly competitive industrial segment. Illinois and Ohio, two states that have historically had high industrial rates, now are regional leaders in competition, and have among the lowest rates for factories. A recent survey by the Michigan Manufacturers Association found respondents saying electricity was the third most important cost item they face.

Families also suffer the highest rates in the Midwest, paying 9.6 percent more than the regional average, and 10.1 percent more than the national average.

May, 2011 EIA data	Residential	Commercial	Industrial	All Sectors
East North Central	**12.09**	**9.54**	**6.46**	**9.13**
Illinois	12.4	8.77	6.1	8.94
Indiana	10.58	8.81	6.23	8.05
Michigan	**13.25**	**10.61**	**7.73**	**10.45**
Ohio	11.56	9.57	5.87	8.79
Wisconsin	13.2	10.12	7.22	9.93
U.S. Total	**12.03**	**10.26**	**6.76**	**9.87**

Electric rates in Illinois and Ohio, two states that have continued to let competition play a role in electric rate setting, were far lower than in Michigan. The state with the second highest rates, Wisconsin, has an electric rate-setting system much like that of Michigan, with rates set by regulators under a law that limits their ability to turn down rate hikes by monopoly utilities.

"I operate a small chain of grocery stores in northern Michigan. We use a huge amount of electricity to keep our stores operating, said DJ Oleson, of Oleson's Food Stores. "Some of our electric rates have gone up 15% from the previous year. We were able to save at least 10% with gas deregulation, and now we need this with electricity."

Oleson urged the state legislature to eliminate the 10 percent cap on electric competition.

"We need to be competitive, and need a choice for our electricity needs."

For more information about the Customer Choice Coalition visit www.customerchoicecoalition.com. For more about Energy Choice Now visit www.energychoicenow.com

Customer Choice Coalition

Powering Michigan
ENERGY CHOICE NOW
THROUGH COMPETITION

For Immediate Release
Aug. 10, 2011

For More Information Contact
David Waymire 517-485-6600

DTE hikes residential rates 11 percent since January, just in time for summer cooling bills

Utility has raised residential rates for most by more than 30 percent since regaining competition curtailed in 2008

Residential customers forced to buy power from DTE are going to be shocked by summer electric bills, as DTE has raised rates for medium size residential customers (those using about 500 kiloWatthours/month) by 12 percent since January, and by 30 percent since July, 2008.

That's far more than the rate of inflation, and comes at a time when many customers have been tightening their belts. It's part of a pattern of substantial price hikes imposed on customers by DTE since it was given monopoly control of 90 percent of the electric business in its region by the Michigan Legislature in 2008.

From 2000 to 2008, when DTE faced competition under state law, DTE raised rates for customers using 500 kWh/month by about 3 percent a year, a total of 23.3 percent. From 2008 to 2011, after the Legislature restricted competition, DTE has raised residential rates for those customers by 10 percent annually , a whopping 29.9 percent. (The U.S. Energy Information Agency estimates the average Michigan household uses 666 kWh/month.)

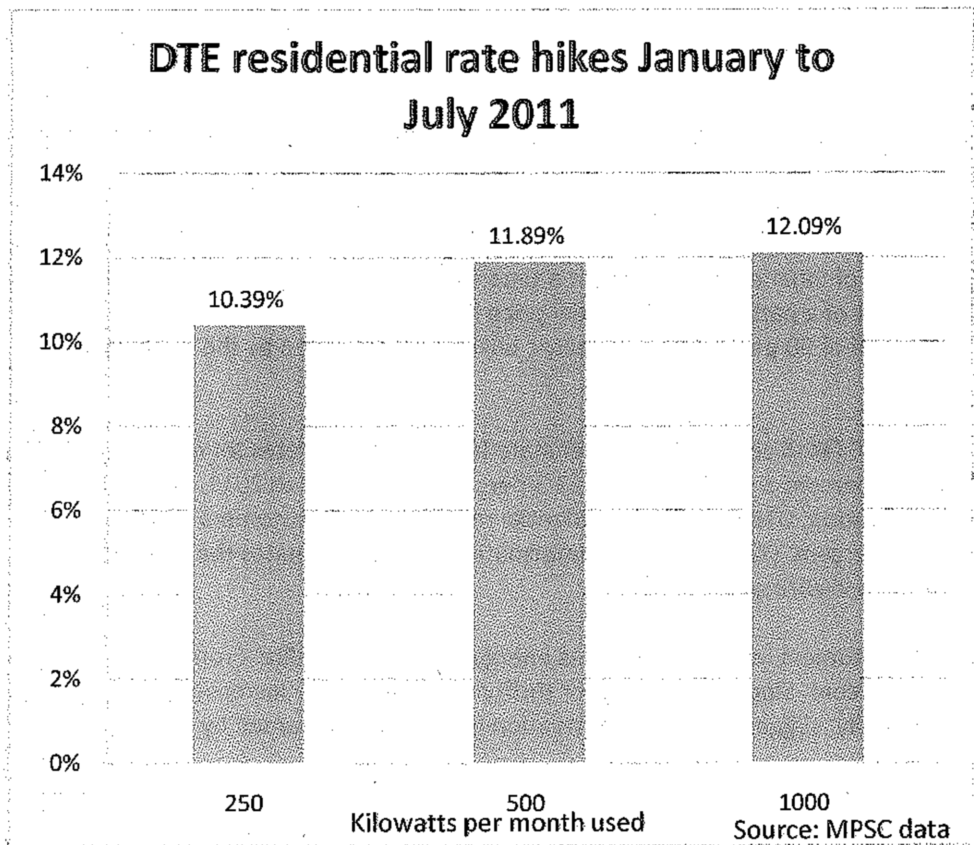
The comparison for small customers, who are using less energy, is even more dire. From 2000-2008, their rates increased 23.3 percent. Since 2008, rates for thrifty customers have increased by 46.6 percent, or 12 percent annually, suggesting that conservation is not being rewarded by DTE.

Michigan's residential electric rates today are well above the Midwest average, and higher than the national average.

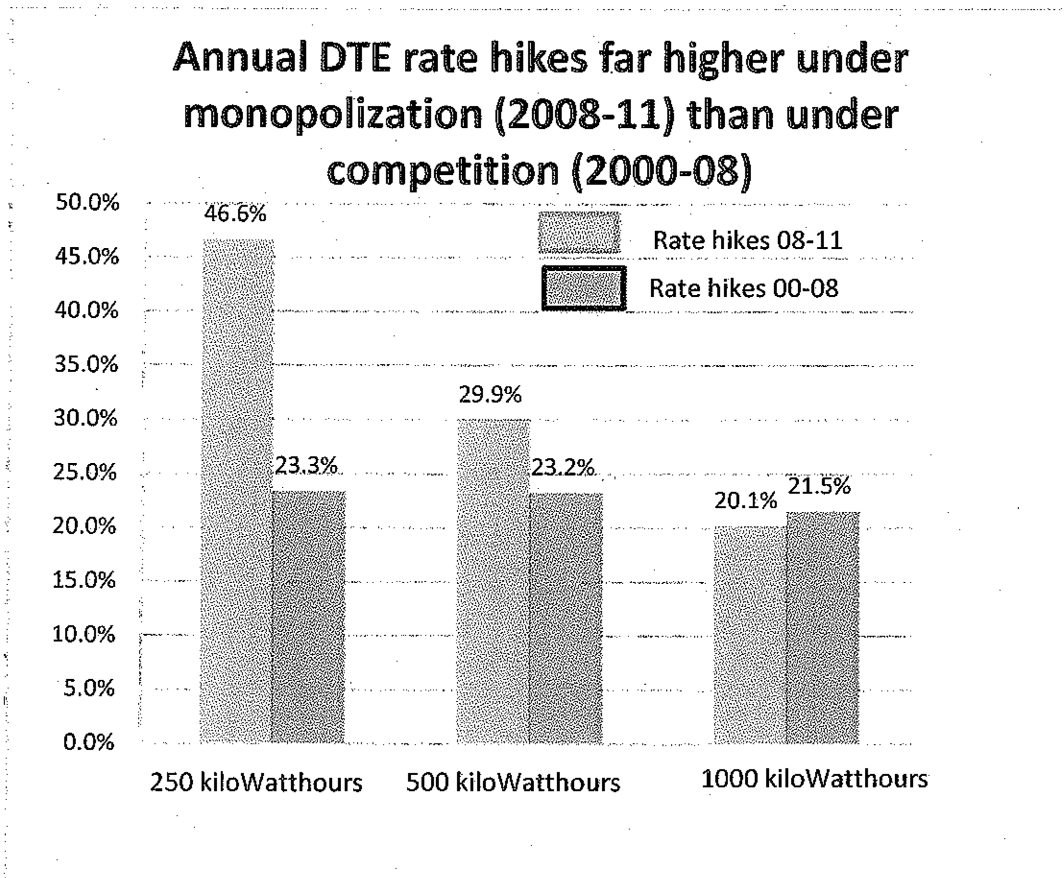
"Michigan's families and employers are being victimized by utility monopolies and the current state law," said Steve Elsea, director of energy services with Leggett & Platt, Inc, a manufacturer with five plants in Michigan and 140 around the world. "It's time for the Legislature to realize that competition from free markets is a far better solution for consumers than forcing them to subsidize through higher rates monopoly utility stockholders."

It's not as if DTE customers are paying a premium for good service. According to J.D. Power and Associates 2010 Electric Utility Residential Customer Satisfaction Study, the company earned a 621 customer satisfaction raking, below the Midwest average of 642, putting it 11th of the 16 companies ranked.

"The Michigan Legislature should look out for the interests of their constituents and open the doors to other companies who can step in and provide lower prices and better quality service. It's happening in Illinois and Ohio today, where residential, business and government customers can shop for electricity just as they can shop for natural gas, phone service, gasoline and other commodities. There's no reason why Michigan's free markets should stop at the light switch," said Elsea.



According to the Energy Information Agency (http://www.eia.gov/cneaf/electricity/esr/table5.html) the average Michigan household uses 666 kWh per month.



Annual DTE rate hikes far higher under monopolization (2008-11) than under competition (2000-08)
50.0%
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
46.6%
23.3%
29.9%
23.2%
20.1%
21.5%
Rate hikes 08-11
Rate hikes 00-08
250 kiloWatthours
500 kiloWatthours
1000 kiloWatthours

Michigan's job-killing electric rates are the highest in the Midwest, well above the national average

	Residential	Commercial	Industrial	All avg.
Indiana	9.96	8.79	6.27	8.08
Illinois	11.65	8.63	6.35	8.96
Ohio	11.22	9.71	6.02	8.99
Wisconsin	12.99	10.35	7.26	10.17
Michigan	12.96	10.32	7.41	10.36
Region avg.	**11.61**	**9.5**	**6.52**	**9.2**
U.S. avg.	**11.69**	**10.3**	**6.86**	**9.95**

U.S. Energy Information Agency information, Electric Power Monthly

Table 5.6.B. Average Retail Price of Electricity to Ultimate Customers by End-Use Sector, by State, Year-to-Date through July 2011
(Cents per Kilowatthour)

Campbell Grinder Company

BEFORE
THE SENATE ENERGY AND TECHNOLOGY COMMITTEE

Written Testimony of

Mark S. Butler

Vice President Finance & Administration
Campbell Grinder Company

November 1, 2011

GSA Schedule

BBB

AMT

1226 East Pontaluna Road
Spring Lake, Michigan 49456
Phone (231) 798-6464
Fax (231) 798-6466
www.campbellgrinder.com

I. Introduction

Campbell Grinder Company is located at 7225 Pontaluna Road, Spring Lake MI 49456. We are a designer/manufacturer of large high precision CNC industrial Grinding Machines for the aerospace, bearings, defense, power generation, nuclear, oil & gas, markets among others. Our customer base includes such notable companies as General Electric, Pratt & Whitney, Rolls Royce, Timken, Caterpillar, Sikorsky, Bell Helicopter, U.S. Dept of Defense, General Dynamics, Curtis Wright, Babcock Wilcox, SKF, Kaydon, among others. We have a worldwide installed base in countries such as Canada, Mexico, Singapore, Scotland, Japan, Poland and China, among others.

We have one production plant at our Spring Lake location and approximately 80 employees. When I started with Campbell Grinder Company in 1998 as Controller, we had 28 employees and our sales were approximately $5 million annually.

History of Campbell Grinder Company
1969
Campbell Grinder Company was incorporated in 1969 to succeed a proprietorship known as "Seaway Machinery", which was owned by Hugh Campbell. He had a lifetime of experience in the design and construction of special machine tools including 10 years as Chief Engineer for the Frauenthal Grinder Division of Kaydon Bearing in Muskegon, Michigan. He was responsible for the design and construction of all the grinding machines sold under the name of "Frauenthal". These dependable machines are still in use in the bearing, aircraft and aerospace fields. Used Frauenthal models 50+ years and older are still in demand in the "used machinery" market. Hugh Campbell continued to design and build custom machinery independently as Seaway Machinery, after the Frauenthal Division was sold to Bullard in the early sixties. The accelerating demand for this type of equipment created the need for a larger organization and facility, and the Campbell Grinder Company was organized to meet that demand.

1998
The Campbell family retained ownership until 1998, when they sold the business to Charterhouse of New York.

2005
Charterhouse held the business until fall of 2005, when Campbell Grinders three managing executives purchased the company. This ownership has allowed Campbell Grinder Company, to diversify into other markets and offer (8) standard models as well as the custom machines.

2006
The Muskegon Tooling Alliance of West Michigan (MTA) was formed in July 2006. Campbell Grinder Company is part of the MTA which also includes other West Michigan tool and die companies with diverse capabilities, technologies and resources. The main reason for forming our tooling collaborative is to utilize and share our technologies in design, machining and equipment.

2007
Campbell Grinder Company receives the "2007 Muskegon Area Environmental Excellence Award".

2009
Campbell Grinder Company announces the formation of its new ***MicroTech Filtration Division***. The new division will first concentrate on the development of three exclusive MicroTech product lines matched to the specific requirements of Campbell Grinder application and then later expand the MicroTech products to handle any single or central machine tool coolant filtration application up to 4000 GPM.

2009
Campbell Grinder Company attains **AS 9100:2004** and **ISO 9001:2000** certification.

II. Professional Background

I hold an undergraduate degree from Ferris State University and a Masters in Business Administration from Grand Valley State University. I started my career in 1984 and have held various positions ranging from cost accounting analyst to Vice President of Finance & Administration at companies such as Westinghouse, Northrop Grumman, Toyota, Textron and Campbell Grinder Company, where I currently am employed and am also part owner. I have also earned my Certified Management Certification (CMA) and CPIM certification form the American Production and Inventory control Society (APICS). While I have always worked in the finance/accounting arena, my focus has been manufacturing and costs associated with those activities. Profit and loss responsibilities, along with human resource functions are vital areas of focus to remain a viable concern.

III. Global Competitive Focus

Cincinnati Milacron, Bridgeport, Ingersoll, familiar names of global machines builders that are either gone, or a shell of their former greatness. Like these companies did, Campbell Grinder Company competes in a global marketplace with global competitors.

Campbell Grinder
Company

To survive and prosper in this environment you must compete on quality, delivery and cost. While we do our best to control these areas, one area we have had little success with has been our utility costs, specifically electric. Our rates have increased by an average 23% over the last two years. And while we have had to absorb our cost increases, I question that regarding our major competitors in Germany and Asia. Only our health care cost increased has outpaced our electric cost increases. And while our costs increase our customers will not accept any price increases. And while continuing performance//production/engineering increases offset some of these increases, we must reduce expenses in other areas; human costs, advertising, travel R&D or other areas that make us less competitive or cause hardships to our valued employees. And while we must engage in these practices to remain a going concern, our provider of public electricity does not face these same competitive pressures. When the costs of our provider goes up are they required to reduce expenses to match in another area such as health costs or pension costs? Or do they just pass these increases on to their customers; that have NO CHOICE except to absorb these rate increases? On the surface it would appear to be desirable for Campbell Grinder Company to be able to request price increases from a government regulatory agency for cost increases due to our being a sole supplier to our customer base. The problem with that is competition drives us to provide better cost control, quality, service and products. So without competition it is our customers that would suffer; oddly enough with ourselves, Campbell Grinder also suffering. We would suffer from the stagnation, lack of innovation, cost control, quality, and customer service that necessarily occur without free market competition. Competition is truly what makes America great. As for a 23% increase in one of our product cost drivers, we have never had an instance/opportunity to raise our prices 23%. We do have vendors that at times request price increases. We jointly work with those vendors to come to a resolution that is acceptable to both parties. We realize we must both be able to make a profit to be a going concern and provide a means of support for the families that our employees provide for. And if we cannot meet a resolution acceptable to both parties, then we at times find a new vendor. In the instance of our electricity provider, we have no such opportunity. We either accept their price increase, regardless of how ridiculous it is, or go without the product impossibility). Interestingly enough, while our electricity costs have increased at over 23% a year, our products that make up our machines have increased at less than 2% during the same time period. The difference? Our vendors for our machine parts have competitors. And our natural gas costs have actually decreased slightly during this same time period. The difference? We participate in choice for our natural gas provider.

3226 East Pontaluna Road
Spring Lake, Michigan 49456
Phone (231) 798-6464
Fax (231) 798-6466
www.campbellgrinder.com

Campbell Grinder Company

IV. Summary

Campbell Grinder Company operates in a highly competitive, global marketplace. Our large blue chip customer base sources product globally. We therefore must be able to effectively compete globally to survive. We have a highly skilled workforce that commands top pay and an attractive benefit package. We are pleased to be in the position to offer such an attractive pay/benefit package to our valued employees. But this is all dependent in Campbell Grinder Company's ability to compete effectively in the global marketplace. When we have large unknown and unplanned cost increases in the cost drivers of our product, it puts us at a severe competitive disadvantage. If we are to continue to grow and add the high paying jobs that our product market dictates, or even to survive, we need to have vendor choice that allows us to source the vendor that allows us the best competitive prices/service.

Best regards,

Mark S. Butler CMA, CPIM
Vice President Finance & Administration

Elm Plating Company
Quality Metal Finishing
Since 1951

1319 S. Elm Street
Jackson, Michigan 49203
(517) 782-8161 FAX (517) 782-7758

November 1, 2011

Honorable Members of the Senate Energy and Technology Committee
Senate Hearing Room
Boji Tower
124 W. Allegan Street
Lansing, MI 48933

This past summer, I communicated the facts in this letter to members of the Michigan Legislature, prompting a meeting with my representative. I am frustrated by my firm's high electric bills, and want to encourage legislators to address the unfair, uncompetitive 10 percent cap on electric choice.

While I, and likely all of my business colleagues in Michigan, appreciate the time and efforts legislators devoted to successfully addressing and changing unfair business taxes in Michigan, those taxes pale in comparison to our energy costs.

What prompted my outreach and plea for help to legislators this past summer was yet another annual meeting with Consumers Energy, informing us of another 3% plus increase in our utility costs. This increase was directly in line with the previous 3 years increases totaling up to nearly 15%. Our electrical spend is consistently $1,000,000 plus per year, making our electric spend one of our top 5 spends in operating our business. Formal calculations from the potential choice suppliers estimate annual savings of $200,000 - $250,000 per year.

We prefer to continue to operate our family owned plating, anodizing, and heat treating business here in Michigan where it started nearly 65 years ago. However the draw to relocate to another state for reason such as this, not to mention tax benefits, and many other regulatory reasons becomes stronger and stronger. Elm Plating Company is in need of your support for energy choice to raise the cap companies in this state so badly need. The state has come up with numerous incentives to attract new business. It's time to also focus on keeping and supporting those businesses that are here and would like to stay.

Please do all you can do to support the electric competition Michigan so badly needs, so companies such as ours can remain competitive.

Sincerely,

Jonas M. McCluskey
President
Elm Plating Company

713 South Main Street
Frankenmuth, Michigan 48734
(989) 652-9941
1-800-BAVARIA
www.bavarianinn.com

Gather Under the Glockenspiel

Legislative Testimony on Energy Choice Legislation
Before Senate Energy & Technology Committee - November 1, 2011
William A. (Bill) Zehnder
Frankenmuth Bavarian Inn, Inc.
Frankenmuth, MI

Good Afternoon, I am Bill Zehnder. For those of you whom I have not yet met, I am President of Frankenmuth Bavarian Inn in Frankenmuth, in Saginaw County. My family has owned and operated the Bavarian Inn Restaurant since 1950. Before that our family was in the Restaurant business at Zehnder's Restaurant across the street. We started there in 1929 where my father (Tiny Zehnder) and his brothers and sisters grew up in the Restaurant business with their parents. Now there are EIGHT family members from THREE generations leading our Bavarian Inn companies in Frankenmuth and we employ just over 1,000 employees. Of course the heart of our business is the kitchen and my mom, Dorothy Zehnder runs the heart of our house. Dorothy will be 90 on December 1st. She runs the kitchen 6 days a week – taking Mondays off – usually to bake or work on recipes at home!

It is still my cousins Al, Martha and Susie who lead and operate Zehnder's Restaurant across the street, in a friendly family competition.

At Bavarian Inn we serve about 600,000 meals a year in our Restaurant and overnight about 250,000 guests in our Lodge each year. In our peak years, 8 to 10 years ago, we served over 800,000 meals and 400,000 overnight guests.

The Hotel and Restaurant business can be demanding. We, like the entire hospitality industry, have been burdened with higher food costs which are also impacted heavily by fuel costs, higher operating costs and of course, why I am here today – rising utility costs. Our Michigan economy has not afforded us the ability to raise prices on rooms and chicken dinners, but we have done so regardless – with some risk. Guests want deals, discounts and are eating out less at fine dining establishments.

713 South Main Street
Frankenmuth, Michigan 48734
(989) 652-9941
1-800-BAVARIA
www.bavarianinn.com

Gather Under the Glockenspiel

I am very confident that we are the largest independent Restaurant in the world that purchases Michigan-based agricultural products. We buy tons and tons of cranberries, potatoes, cucumbers, squash, apples and more – ONLY in Michigan. At the Lodge, we just bought 100 new granite tops for our original guestrooms from the Blasius family in Tuscola, Michigan, that runs a small manufacturing company. But I have 250 more rooms that need them. Where do I get the money?

Four years ago, we employed over 1,400 employees. Currently we employ between 1,000 to 1,100 people. This still makes us one of the largest employers in Saginaw County.

Obviously it has not been easy laying off staff, cutting insurance benefits, and paying rising costs for insurances, utilities and on all of our cost of goods categories. We ARE in SURVIVAL mode.

We too have mortgages and our banks expect prompt and consistent payments. Like many companies, our capital expenditures HALTED for a period of time. Where before we used to reinvest over 2 million dollars annually for improvements and growth, it dropped to $200,000 for emergencies in 2009.

In the last 12 months we have been allowed to spend a bit more in Cap-Ex again because the sales decline has slowed and because we cut costs so deeply for 2-plus years across the board. That affected our level of service a bit perhaps, but we are surviving. We did buy a new $350,000 dishwasher last year, after 35 years. Yes, we made it work for 35 years!! We bought new mattresses, repaired roofs and worked on tier one items that will minimize the attrition of our guests. My dad used to say, "you don't want to look like a 'has-been' place", but what if you don't have the money? That has been very difficult in the past 3 years. We have reinvested less in our company in the past 3 years than I can ever remember since I joined the business personally in 1973.

In the last three weeks, between our companies, we cut checks to pay our utilities. Our Gas bills combined were $28,277 via Stand Energy Corporation – a Gas Choice

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company we have purchased gas from for 24 years. Our Electrical bill via Consumer's Energy totaled $114,932. Other than food costs, that is the largest expenditure we made in the last month! In fact, Electricity expenditures represent the following percentages of operating expenses: 13.3% at the Restaurant, 16.6% at the Lodge and 11.1% at Frankenmuth River Place Shops.

Back Up Data:	Lodge:	Restaurant:	River Place:	Totals:
12 months Electrical Bills:	$593,049	$459,000	$68,246	$1,120295
Total Operating Expenses:	$3,585,440	$3,459,786	$617,210	$7,662,436
Ratio:	16.6%	13.3%	11.1%	14.6%

Jim Engel, C.O.O. at the Lodge and Vern Schiefer, our Corporate Accountant have been analyzing our energy costs and meeting with electric suppliers since Spring of 2009. They met with and analyzed multiple energy companies who were offering the Energy Choice program for electricity. In EVERY case the quotes based on 1 year of actual history would save us over 12% of our electricity cost. We were enrolled in the ROA Choice Program on Aug. 13, 2009. Our final choice for a vendor specifically estimated that:

Bavarian Inn Restaurant could save $ 69,060 Annually and
Bavarian Inn Lodge could save $ 81,844 Annually
Total: $150,904 Annually!

This is a 14 and 16% saving respectively for our companies.
Back Up Data: Based on quotes from Glacial Energy as of May 19, 2011.

I mentioned earlier that we were able to be a part of a natural gas Choice Program allowed 24 years ago. Since gas was allowed to be competitive for 24 years, we estimate we have saved over 1.1 million dollars over that period of time. My family does not live a lavish life – I can assure you that these savings were reinvested by my father and now by my entire family back into our business. I explain in staff meetings, like my father did for years, that our goal is to make a profit. We need the profit so we can reinvest in our business (cap-ex & repairs) and reinvest in our team members with benefits and a fair wage.

BAVARIAN INN RESTAURANT

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Gather Under the Glockenspiel

This $1.1 million in savings is based on about $48,000 in savings per year. If I can save another $150,000 every year – what is that in the next 24 years? It is 3.6 million dollars!

My cousins across the street researched a bit earlier in the Choice program and they "made it in" under the 10% Cap. Ironically we enrolled in the program on Friday, August 13th, 2009. We found out on the next Monday that the program was capped and we were placed on a waitlist.

Since we currently MUST purchase our electricity from Consumers Energy, we met with them as recently as September and they assured us that we are on the most competitive, lowest rate structure they can offer us.

I hope these statistics and the background on our business and industry help you understand why it is so very important to our survival that you consider eliminating the CAP on businesses who can have access to competition. I am at a disadvantage to many companies and even to my largest competitor right across the street.

I don't feel government should be in the business of picking winners and losers. This restriction has done exactly that for several years. My family has had the Choice to choose our gas company for 24 years; please allow me to choose my electrical energy company too!

You as legislators are concerned about improving Michigan's economy. This electricity choice is an opportunity to do just that. Please assist other Michigan companies by giving them a CHOICE. The benefit to our great State of Michigan will be significant reinvestment by thousands of businesses and thus growth in employment and opportunity. My business would love to reinvest with the potential savings – to buy more equipment, upgrade our facilities, hire more team members, pay more in wages and benefits, and buy more Michigan products.

Thank you to the Legislators who <u>24 years ago</u> had this insight for the gas industry. I hope to thank each of you also in the months ahead for giving us the choice in electricity suppliers as well!

Thank You.

Leggett & Platt
Innovation Redefined

BEFORE
THE SENATE ENERGY AND TECHNOLOGY COMMITTEE

Written Testimony of

Steve Elsea

Director of Energy Services
Leggett & Platt, Inc.

October 28, 2011

I. Introduction

Leggett & Platt is located at P.O. Box 757, No. 1 Leggett Road, Carthage, Missouri 64836. Leggett is a diversified Fortune 500 manufacturer that conceives, designs and produces a broad variety of engineered components and products that can be found in virtually every home, office, retail store and automobile. My responsibilities as Director of Energy Services include maximizing the energy value from supplier to point of use for Leggett & Platt's global manufacturing operations.

Leggett & Platt operates 140 production plants in 18 countries and employs 19,000 workers. We operate one hundred manufacturing plants in 22 states in the U.S. that employ approximately 9,000 American workers. Leggett & Platt operates five production plants in Michigan and employs approximately 350 workers in the Wolverine State.

II. Professional Background

I hold an undergraduate degree in Architecture from Southern Illinois University and a Masters in Business Administration from The Ohio University. I began my career with an investor-owned dual-fuel utility in Illinois and spent 22 years working for investor-owned utilities in Illinois, Kentucky and Ohio.

The focus of my career was in marketing and customer services, and I have personally conducted hundreds of energy efficiency audits for residential, commercial, institutional and industrial customers. Before I left the utility industry in 2000, I managed residential and commercial customer programs for American Electric Power ("AEP"). Later, I founded an energy management company that focused on a demand response solution, and consulted for municipal electric utilities in Ohio before I joined Leggett & Platt in early 2007. I have recently been named to the board of directors of the Missouri Energy Initiative and currently serve on the BOD of the COMPETE Coalition.

III. Position on Competitive Markets

Leggett & Platt operates facilities in competitive retail electricity markets in Texas, Illinois, Ohio, Pennsylvania, New Jersey, Maryland, Michigan and California as well as in Ontario, the UK, Switzerland, Belgium, Austria, Italy, Denmark, Germany and Croatia. The plants in Michigan & California are exempt from customer choice due to caps on customer participation in competitive electricity markets in those states. We do participate in demand-response programs in California as the Golden State has not precluded end-use consumers from directly dealing with curtailment service providers (CSPs) per an opt-out provision in FERC Order 719.

Our experience is that competitive electricity markets have allowed the company to lower its energy costs. A prime example is to Michigan's south in Ohio. Leggett & Platt buys electricity at our wire mill in Solon, Ohio from a competitive retail service (CRES) provider. We recently completed an RFP and executed a new contract with our incumbent CRES provider. We were able to structure the block and index products according to our own risk tolerance and received competitive bids for those products. Leggett & Platt has reduced its total electricity costs by almost 15% in Ohio since we have been buying through the competitive market.

Another example involves a comparison of the electricity costs in two of our plants. Leggett & Platt has two similar carpet underlay plants that use about the same amount of electricity each year. One is located in Texas and the other in Mississippi. The cost per kWh of the plant in the competitive Texas ERCOT market is approximately 28% lower than the Mississippi plant, which is served by a TVA power distributor (e.g. in a non-competitive electricity market).

As a final example, over 55% of our kWh purchases in the U.S. during 2010 were for plants in the competitive PJM market, but the costs of those purchases account for less than 39% of our total electricity costs. Conversely, about 42% of our domestic electricity usage at plants located in non-competitive states like Michigan costs over 58% of our U.S. electricity budget. The all-in cost per kilowatt-hour in competitive U.S. markets versus monopoly service areas tells the story; 4.3¢ and 8.3¢, respectively. Our average cost per kilowatt-hour in Michigan is 10.3¢.

Competitive markets help Leggett & Platt lower costs because they allow us to choose from an array of competitive products and services and give us the flexibility needed to manage our energy portfolio. For example, competitive electricity markets offer supply-side options in renewable energy and demand-side options like advanced electricity storage. We are no longer tethered to a specific electric generation mix, and instead are able to shop for our desired generation mix.

In addition, there are numerous service options and products available from CRES providers to meet customer's needs, resources, budget requirements, environmental or sustainability initiatives, and price hedging strategies. These products can be individually customized to meet the business goals, risk appetite, and needs of all types of electricity customers.

Transparent market-driven prices and a choice of contracts and innovative services have allowed Leggett & Platt to look closely at how we use electricity and where we can implement new technologies and conservation measures to reduce our costs. For example, we are currently evaluating the costs and benefits of using behind-the-meter flywheel and battery storage technologies to provide regulation service in the competitive electricity markets that allow customers to provide such services. This additional revenue stream is precluded by market barriers in the monopoly service territories.

We also establish risk management strategies to mitigate price volatility and reduce costs while also contributing to improved grid reliability by participating in demand-response programs. This approach has helped us in other competitive markets such as California, Illinois, New Jersey, Ohio, Pennsylvania and Texas. We cut costs by providing over 20 MW of demand resources in the California, Texas and PJM markets. It is not coincidental that Leggett's entire demand-response load portfolio is in competitive electricity markets in which end-use consumers can deal directly with CSPs. As a company that maximizes profits and has a focus on shareholder return, we are interested in minimizing every controllable cost.

Restructuring the electricity markets has greatly diminished financial risk for consumers. Monopoly-protected utility companies are guaranteed recovery of their costs from their captive customer rate base. With restructuring, customers can choose among service providers and the risk of poor investment decisions is borne by companies competing for those customers. Competition disciplines investment by shifting the risk of poor business decisions from consumers to investors, where it belongs.

Having worked many years on the investor-owned utility side of the business I understand the opposing positions taken by some of my industrial counterparts. Before the emergence of organized markets, I found it curious that certain customers and customer classes – namely industrial customers – were among the most active participants lobbying for competitive markets.

These large industrials were experiencing rate increases never before seen, but the fact of the matter was that many high-use, high load factor customers were paying only slightly above the cost of fuel plus marginal variable costs. These costs were well below the utility's cost-to-serve. This meant that other, less sophisticated small business customers were paying higher prices to support the below-cost rates the industrials were enjoying. The emergence of competitive retail markets and the inherent price unbundling and transparency eliminated those subsidies.

It is no wonder that certain large Michigan industrial customers and other influential Michigan Chamber of Commerce and Michigan Manufacturers Association members oppose customer choice: to maintain the status quo of subsidized rates. Investor-owned utilities oppose raising caps to competition to justify cost-based rates and ratepayer obligations to finance utility capital investments whether prudent or not. Interestingly, the Illinois Chamber of Commerce took an opposing position to help defeat anti-competitive legislation that would have undermined the competitive electricity market in Illinois.

IV. Summary

We continually evaluate our cost of doing business in various locations, and have made adjustments ranging from closing operations where competitive choices were not available at one location and consolidating in another location where retail choice was available. We also routinely adjust daily operations during demand-response events in locations that offer that competitive market feature.

Our experience is that in a well-functioning competitive market, CRES providers and CSPs can offer contracts of varying durations to customers. These contracts can be month-to-month up to three years or more, and everything in between, and tailored to meet the individual needs of the customers. The one-size-fits-all approach of monopoly protected services cannot compare with the advantages afforded Leggett & Platt by choice and competitive markets.

To that end, Leggett & Platt supports lifting the current cap on customer electricity choice in Michigan.

Michigan's job-killing electric rates are the highest in the Midwest, well above the national average

	Residential	Commercial	Industrial	All avg.
Indiana	9.96	8.79	6.27	8.08
Illinois	11.65	8.63	6.35	8.96
Ohio	11.22	9.71	6.02	8.99
Wisconsin	12.99	10.35	7.26	10.17
Michigan	12.96	10.32	7.41	10.36
Region avg.	**11.61**	**9.5**	**6.52**	**9.2**
U.S. avg.	**11.69**	**10.3**	**6.86**	**9.95**

U.S. Energy Information Agency information, Electric Power Monthly

Table 5.6.B. Average Retail Price of Electricity to Ultimate Customers by End-Use Sector, by State, Year-to-Date through July 2011

(Cents per Kilowatthour)

The Case For Raising The "Cap" On Michigan's Electric Choice Program

Successful Electric Choice Program 2000-2008

Following the identification of energy costs as a barrier to Michigan's competitiveness[1] in the late 1990s, Governor John Engler embarked upon the task of opening up Michigan's electric market to competition.

The Michigan legislature passed the "Customer Choice and Electric Reliability Act" of 2000 (PA 141 of 2000) which took effect June 5, 2000, and was implemented through two orders issued by the Michigan Public Service Commission in December of 2001.[2]

Between 2000 and 2008, electric customers were able to choose their own electric supplier, and Michigan businesses saved over $400 million in energy costs through participation in the electric choice program.

During the period of full Electric Choice, 2000-2008, over 4,000 megawatts of new generating capacity was built by independent suppliers in our state and Michigan began to significantly close the gap on energy rates with neighboring and competing states.

The PA 141 Electric Choice Compact:

In return for supporting a competitive market, Michigan's major publicly-owned utilities successfully bargained for two compensating devices. First, the utilities were allowed the full recovery of "net stranded costs" and "implementation costs." This compensated utilities for any financial losses due to their generation costs being above the competitive market. After the utilities received over $163 million in net stranded costs awards ($63 million for Consumers[3] and over $100 million for DTE[4]), it was determined by the MPSC in 2006 that DTE and Consumers Energy had fully recovered all stranded costs.[5]

Second, the utilities were allowed to "securitize" certain assets through a 15-year bond issue.[6] Consumers Energy was allowed to securitize up to $468.8 million[7] and DTE up to $1.74 billion[8]. This guaranteed the recovery of costs for generation facilities that likely could never compete in the marketplace. Costs for the securitization bonds will

[1] PHH Fantus Report
[2] MPSC Case # U-12488/U-12489
[3] MPSC Case # U-13720/U-14098
[4] MPSC Case # U-13808
[5] MPSC Case # U-14526/U-13808-R
[6] PA 142 of 2000
[7] MPSC Case # U-12505
[8] MPSC Case # U-12478

continue to be charged all customers – including Electric Choice customers – on their monthly utility bills through 2015.

PA 286 of 2008: Compact Broken by "Cap" on Electric Choice

After receiving over $163 million in stranded costs and implementation costs and having over $2.2 billion of their assets securitized by the State of Michigan (for which customers will pay until 2015), in 2007 the major utilities began a concerted effort eliminate or restrict competition.

Their argument was that they could not finance new and replacement power generation assets without monopoly status. Also, they argued that new power plants and investing in renewable power generation assets would create jobs.

Certain business interests agreed to support a "cap" on Electric Choice in PA 286 – limiting competition to 10% of the utility sales – in return for (1) capping the cost of renewable energy under a new 10% renewable portfolio standard (RPS), (2) moving tariff rates to "cost of service" over a five-year period, and (3) providing a financing mechanism (Certificate of Necessity) for new power plants.

The Impact of PA 286: Cap Reached Quickly / Customers Held Captive

Since the enactment of PA 286, no new base load power generation capacity has been approved, started, or built in Michigan; either by publicly-owned utilities or private investors. Michigan rate payers have seen more frequent rate increases. Michigan utility energy prices continue to be significantly higher than those in neighboring and competitive states.[9]

At the time PA 286 was under consideration, proponents asserted that the 10% cap on electric choice would not be reached for a very long time. However, the cap was reached in the Consumers Energy service territory in August, 2009 and in the DTE service territory in December, 2009— approximately one year from the effective date of PA 286.

Michigan is now in a situation where a significant portion of its commercial and industrial customer base is "locked out" from the benefits and savings from competitively priced power. As of October, 2011, over 5,500 customers of Detroit Edison and Consumers Energy are in the Electric Choice "queue" – unable to take competitive electric supply because of the Cap. Although prevailing market prices are dropping, Michigan's electric rates are increasing rapidly.[10]

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[9] U.S. Energy Information Administration, Independent Statistics and Analysis, Average Retail Price of Electricity to Ultimate Customers by End Use Sector, by State, report release dates: November 15, 2010, and April 14, 2011.

[10] "Comparison of Average Rates for MPSC-Regulated Utilities in Michigan," October 1, 2008, and August 1, 2010, Michigan Public Service Commission, Regulated Energy Division.

Making Michigan Competitive Again: Raising The Cap

Michigan is again at the same point it was back when Governor Engler examined Michigan's competiveness during the 1990s. And once again energy costs are among the major disincentives to locating and growing a business in Michigan. In addition to businesses, local units of government and educational institutions are facing increasing needs in an environment of limited resources. Money spent on energy rate increases reduces funds available for police, fire protection and critical infrastructure.

The *fundamental solution* to the problem of getting lower electric prices for Michigan businesses is to *eliminate or raise the cap on Electric Choice.*

Doing so will:

(a) provide access to competitively priced power – putting Michigan businesses on a par with other states,

(b) provide visible pressure on utilities to operate more efficiently and keep costs down, and

(c) continue to provide utilities the ability to build new generating capacity and ensure recovery of their costs through the "Certificate of Necessity" provision still in PA286.

CONCLUSION:

Aside from taxes, the three main cost drivers for Michigan businesses are labor, raw materials, and energy. Although state policy makers have little influence over market labor rates or global raw material costs, they do have the ability to influence the cost of energy in Michigan through legislative and regulatory policy.

- *Competition drives innovation, efficiencies, and lower prices.* The cell phone market provides an excellent example of the benefits of competition – more choices at increasingly lower prices.

- *Michigan policy makers need to unleash the power of competition by eliminating or raising the cap on Electric Choice.*

On the following pages, in Q&A form, are some of the myths and facts around limiting the competitive market for electricity in Michigan and the benefits of raising the 10% cap on Electric Choice.

Myths and Facts

1. **Isn't the 10% Cap needed to allow utilities to get financing for new generating plants?**

    - No. It is the grant of a "certificate of necessity" by the MPSC under PA286 that guarantees utility recovery of new project costs through rate making and thereby provides the necessary assurance to those financing the investment----not the 10% cap.

    - The "certificate of necessity" provision is not being changed.

    - A utility should match its future generating supply requirements to the customers it expects to serve and should not attempt to lock in a customer base to the generation it wants to build.

    - Because of the capacity requirement instituted by the Midwest ISO in 2009 (see #2 below) any supplier – utility or competitive supplier – need provide generating capacity only for the customers it expects to serve.

2. **Utilities argue that a low Cap is needed to protect utilities from too many customers leaving and then returning to utility service if competitive prices are too high. Utilities claim they must have generation available to serve these returning customers.**

    The utility arguments no longer make sense.

    - The "returning customer" argument may have been plausible when PA286 was enacted in October of 2008, but it is now obsolete.

    - Since June of 2009, the Midwest ISO requires <u>all</u> suppliers – both utility and competitive – to provide capacity including reserves to serve their loads. If a customer leaves one supplier to take service from another, that *frees up* the former's capacity, which becomes available on the market to be purchased by the new supplier. We are all part of a large "pool" of power available to all customers in the Midwest ISO.

    - Consequently, if customers change suppliers, whether utility or competitive suppliers, it has no effect on regional reliability nor on the market cost of capacity to serve those customers.

- Rules have been in place for several years requiring customers returning to utility service to give adequate notice and requiring them to remain for at least a year so that the utility is not financially harmed. A customer who fails these requirements is charged a market rate, which is financially neutral to the utility. These rules have worked well to protect the utility, and therefore no additional restrictions on a customer's choice of supplier are needed.

3. **Some assert that customers who leave the utility for Electric Choice are not paying their fair share for the generation plants built to serve them.**

   Under the provisions of PA 141, utilities have already received ample compensation for opening up full Electric Choice.

   - Under PA 141 of 2000, the legislature provided generous support for utilities to transition to a competitive market. This included securitizing over $2 billion in utility assets through a 15 year bond issue paid by rate payers and the award of more than $100 million in stranded costs.

   - The MPSC determined in 2007 that Consumers and DTE had fully recovered all stranded costs.

   - All customers – both utility and Electric Choice – <u>continue to pay</u> a monthly securitization charge on their utility bill to pay for the $2B in securitization bonds (through 2015) for Consumers and DTE, but the Electric Choice program is now limited to only 10% under PA 286. That's what is not "fair."

   - Further, although Electric Choice customers pay securitization charges for utility generating plants, they receive no benefit from these plants, either capacity or low-cost energy. Consequently, Electric Choice customers are subsidizing full-service utility customers.

4. **Another argument is that a cap is needed because if customers leave the utility for Electric Choice, the utility will have excess generation but not be able to collect for it.**

   - Neither Consumers Energy nor Detroit Edison has any excess generation. Both buy expensive capacity in the summer months. Customers leaving for Electric Choice actually *reduce* the amount of summer capacity that the utilities must purchase—thereby reducing utility costs and resulting in a lower PSCR for existing customers.

   - Any excess capacity can be sold into the marketplace.

- Testimony in both Detroit Edison and Consumers Energy cases has demonstrated that when customers move to Electric Choice, the utility reaps savings that are approximately equal to, and in some instances exceed, the utility's reduced revenue.[11] Thus, remaining utility customers are not harmed by Electric Choice.

5. **What about the future? Does not Michigan need to build new in-state generation to meet its future power requirements, replace aging plants and generate new jobs? Is not the 10% Cap needed so that utilities can build new generation for reliability in Michigan?**

   A cap on Electric Choice is not needed to facilitate new supplies of electric power. Consider the following:

   - Whether a new power plant is necessary or prudent is determined by the MPSC under the "*certificate of necessity*" process under PA 286. It has nothing to do with the 10% cap.

   - Michigan's electric power demand is shrinking, not expanding, due to lower demand and energy efficiency measures.

   - As the result of the pending enactment of PA 286, a major 750 MW independent power plant project (LS Power) was cancelled in 2008.

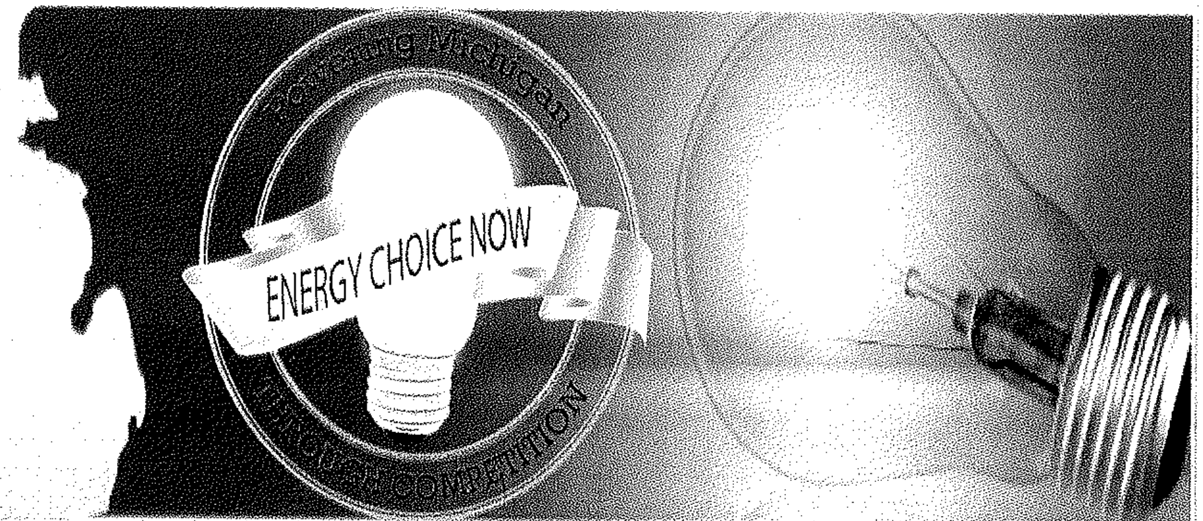
   - With the Governor's Executive Directive (E.D. #2009-2) on new coal-fired plants and under the terms of the proposed MDNRE air permit, Consumers Energy would be required to <u>shut down</u> over 900 MW of existing plant capacity <u>in order to build</u> 850 MW of new capacity—a net loss in base load capacity. This will result in higher costs for new plants, shuttering low cost plants before the end of their useful life, higher depreciation costs for rate payers, and the layoff of workers at Consumers' facilities----not to mention the loss of significant local tax revenue for cities in which the facilities will be closed (e.g. Muskegon).

   - Between the enactment of PA 141 in 2000 and PA 286 in 2008 – a period of uncapped Electric Choice -- over 4,000 MW of new generation was built in Michigan. None of this was built by a regulated utility. This demonstrates that a cap on Electric Choice is not required for generation to be built in Michigan.

July 2011

[11] Detroit Edison general rate case U-16472, testimony on behalf of Energy Michigan and Exhibits EM-2, EM-3, and EM-4. Consumers Energy Revenue Decoupling Mechanism case U-16566, testimony on behalf of Energy Michigan and Exhibits EM-2 and EM-3.

Customer Choice Coalition



HOW COMPETITIVE ELECTRICITY CURRENTLY WORKS IN MICHIGAN

NOVEMBER 1, 2011

How Power Is Purchased

MISO dispatches generation, meaning power is no longer "scheduled" between generator/seller and LSE/buyer.

The two parties settle up financially on any differences between the specified price and the MISO billed price.

A "purchase" from a generator within MISO is no longer a physical purchase but rather a financial contract whereby the seller guarantees a specified price that the buyer will pay to MISO.

In the MISO market since 2005, MISO buys all and sells all.

IN MICHIGAN, COMPETITIVE ELECTRICITY SUPPLIERS ARE LIMITED TO PROVIDING POWER TO JUST 10% OF THE MARKET

Alternative Electric Suppliers
"AES"

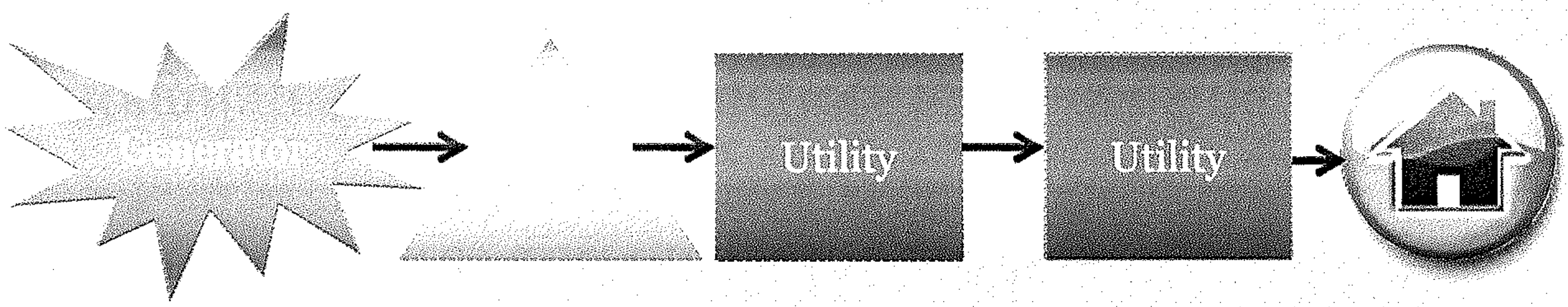
- In order to sell to customers in Michigan a supplier must obtain a license and become a licensed Alternative Electric Supplier "AES" with the MPSC
- Financial security, expertise in the industry and history of complaints in other states must be shown.
- Proof of MISO participation and FERC Power Marketer License.
- An AES once licensed must register with the utility by signing agreements, testing system compatibility, and abiding by the utility tariff.

Role of Michigan Public Service Commission in Electric Competition

- FERC jurisdiction is to the utility distribution system where the MPSC takes over.
- Regulates rates and tariffs for utilities
  - Includes the tariff that AES must follow.
- Regulates marketing practices and licensing of AES
  - While prices are not determined by the MPSC contracts, marketing practices, and license to operate in the state are regulated.

Deregulated is a misnomer

How Power Moves Without Competition



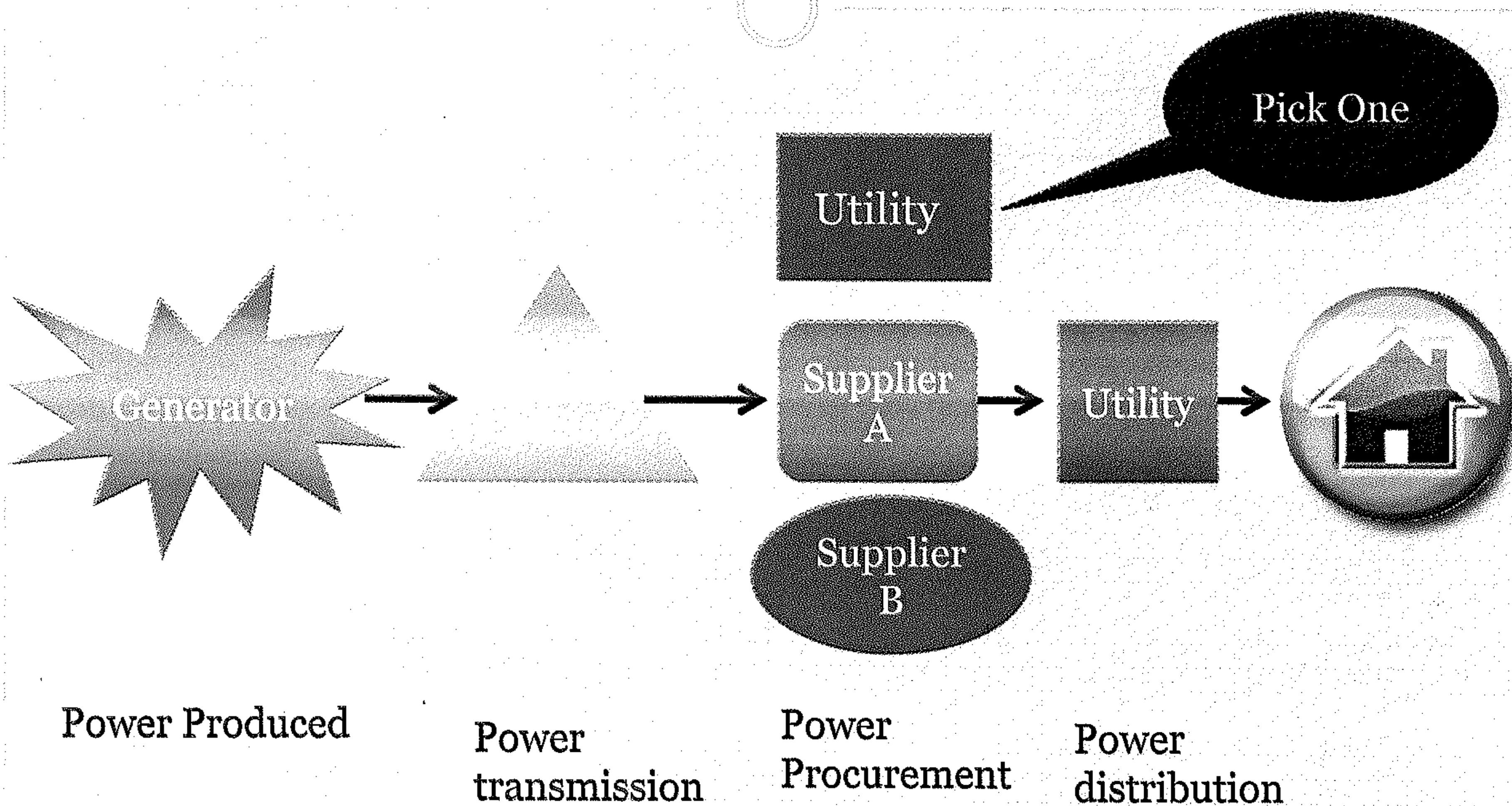
Power Produced

Power transmission

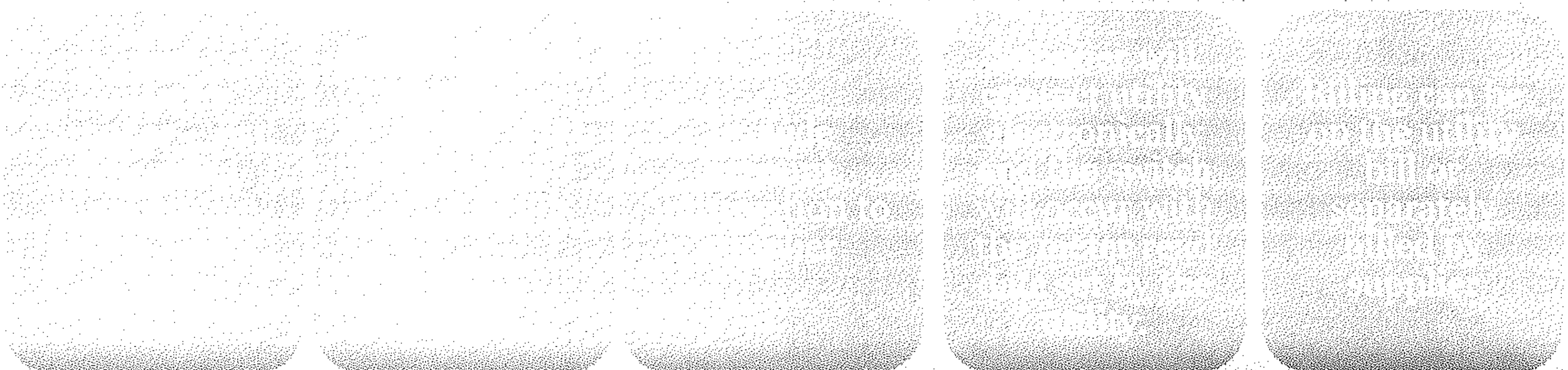
Power Procurement

Power distribution

How Power Moves With Competition



How To Switch



Provider of Last Resort
"POLR"

- POLR – is who supplies a customer when they do not make a choice or when they leave a supplier.
- This is not always the utility -
  - In Michigan the utility is the POLR
  - In other states , where the utility is the POLR, either:

    wholesale suppliers provide the utility with the power and manage that risk or

    the customer must choose another supplier and cannot return to the utility
  - In a couple states, suppliers must stand ready to take on customers at any time to fill the POLR role

In Michigan Who Pays For the POLR or the right to return?

- Residential: after switching must remain on Retail Access residential service for a minimum of one full billing cycle
  - If, at any time, residential choose to return to utility service, must remain on Full Service for a minimum of one year

Commercial Return Costs

- **Return to Full Service**
- Electric Choice customers returning to Full Service must provide notice so the utility can plan for the summer peak demand season (June through September)
- Electric Choice customers are required to provide the utility with notice no later than December 1 if they will be taking Full Service during the coming summer
- Customers returning must remain on Full Service for one year
- Electric Choice customers are prohibited from returning to Full Service for two years
- Customers who fail to abide with the requirements and Return to Full Service will pay the higher of the applicable tariff rate or the market priced power charge, plus 10% during the summer

On November 23, 2004, the Michigan Public Service Commission issued a final order in Case No. U-13808 **addressing Return to Full Service; further clarification was provided on June 30, 2005 in an** order on rehearing**. Highlights included:**

Sample return calendar

DTE Energy

Energy Pricing Based on Return to Service Conditions

Drop Conditions			Energy Pricing			
Notice Prior to 12/1 Deadline	Option 1 or 2	Past EC Minimum Term	Jan - May	June - Sept	Oct - Dec	Minimum Stay on Bundled
Yes - Returned RTS Form	N/A (Must Stay 12 Months)	Yes	Tariff	Tariff	Tariff	12 Months
		No	Higher of MPP[1] or Tariff	*Higher of MPP or Tariff*	Higher of MPP or Tariff	12 Months
Yes - Submitted Drop before 12/1 *(Implied Notice)*	1 (Elected Option 1)	Yes	Tariff	Tariff	Tariff	None
		No	Higher of MPP or Tariff	*Higher of MPP or Tariff*	Higher of MPP or Tariff	None
	2 *(Did Not Elect Option 1)*	Yes	Higher of MPP or Tariff	*Higher of MPP or Tariff*	Higher of MPP or Tariff	None
		No	Higher of MPP or Tariff	*Higher of MPP or Tariff*	Higher of MPP or Tariff	None
No[1] *(No RTS form by 12/1 and no drop submitted before 12/1)*	1 (Elected Option 1)	Yes	Tariff	*(Higher of MPP or Tariff) + 10%*	Tariff	None
		No	Higher of MPP or Tariff	*(Higher of MPP or Tariff) + 10%*	Higher of MPP or Tariff	None
	2 *(Did Not Elect Option 1)*	Yes	Higher of MPP or Tariff	*(Higher of MPP or Tariff) + 10%*	Higher of MPP or Tariff	None
		No	Higher of MPP or Tariff	*(Higher of MPP or Tariff) + 10%*	Higher of MPP or Tariff	None

[1] MPP is calculated using DECO.nes load zone and applicable MISO charges and energy loss adders

Unique to Michigan: 10% Cap On Switching

- Only 10% of the prior year retail sales by utility are eligible to take service from an AES each year.
  - Customers who already moved are not forced to go back if the cap falls.

- The cap in both Consumers and Detroit Edison have been filled.
- Customers have the option to go into a queue and wait for an opening of enough space to switch to a supplier.

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